

EXHIBIT 12

REPORT

AUDIT OF FINANCIAL STATEMENTS

for

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

for the years ended December 31, 1992 and 1991

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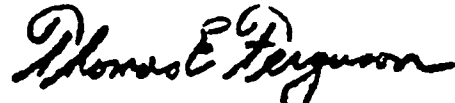
THOMAS E. FERGUSON, CFE

AUDITOR OF STATE

P.O. BOX 1140 • Columbus, Ohio 43266-0040 • [614] 466-4514

Board of County Commissioners
Hamilton County
Cincinnati, Ohio 45202

We have reviewed the independent auditor's reports of the Metropolitan Sewer District of Greater Cincinnati prepared by Foxx & Company, and the working papers related thereto for the fiscal year ended December 31, 1992. Based upon this review, we have accepted these reports in lieu of the audits required by Section 117.11, Revised Code. We did not audit the accompanying financial statements and accordingly we are unable to express, and do not express, an opinion on them.



THOMAS E. FERGUSON, CFE
AUDITOR OF STATE

July 19, 1993

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Foxx & Company
Certified Public Accountants

The Honorable Board of County Commissioners
County of Hamilton, Ohio

INDEPENDENT AUDITORS' REPORT

We have audited the balance sheets of the Metropolitan Sewer District (District) of Greater Cincinnati, Cincinnati, Ohio, as of December 31, 1992 and 1991, and the related statements of revenues and expenses, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Metropolitan Sewer District of Greater Cincinnati as of December 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Foxx & Company

April 23, 1993
Cincinnati, Ohio

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THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI CINCINNATI, OHIO

BALANCE SHEETS

(continued)

December 31, 1992 and 1991

LIABILITIES AND EQUITY	<u>1992</u>	<u>1991</u>
Current liabilities:		
Current portion of long-term debt	\$ 7,187,000	\$ 5,363,000
Accounts payable and accrued liabilities	<u>4,738,000</u>	<u>3,347,000</u>
Total current liabilities	<u>11,925,000</u>	<u>8,710,000</u>
Payable from restricted assets:		
Construction account	3,420,000	3,922,000
Bond account	<u>1,023,000</u>	<u>1,044,000</u>
Total payable from restricted assets	<u>4,443,000</u>	<u>4,966,000</u>
Long-term debt	<u>185,022,000</u>	<u>192,398,000</u>
Total liabilities	<u>201,390,000</u>	<u>206,074,000</u>
Equity:		
Contributions in aid of construction	183,855,000	186,872,000
Retained earnings	<u>153,203,000</u>	<u>147,385,000</u>
Total fund equity	<u>337,058,000</u>	<u>334,257,000</u>
Total liabilities and equity	<u>\$538,448,000</u>	<u>\$540,331,000</u>

The notes to the financial statements are an integral part of the financial statements.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
CINCINNATI, OHIO**

STATEMENTS OF REVENUES AND EXPENSES

for the years ended December 31, 1992 and 1991

	<u>1992</u>	<u>1991</u>
Operating revenues:		
Sewerage service charges	\$66,669,000	\$67,264,000
Sewerage surcharges	9,908,000	9,894,000
Other revenues	<u>3,152,000</u>	<u>2,905,000</u>
Total operating revenues (Note 3)	<u>79,729,000</u>	<u>80,063,000</u>
Operating expenses:		
Personnel services	31,118,000	30,278,000
Utilities, fuel and supplies	11,318,000	10,446,000
Depreciation and amortization	18,110,000	15,654,000
Purchased services	11,479,000	10,172,000
Other expenses	<u>2,605,000</u>	<u>2,507,000</u>
Total operating expenses	<u>74,630,000</u>	<u>69,057,000</u>
Income from operations	<u>5,099,000</u>	<u>11,006,000</u>
Other income (expense):		
Interest income	2,876,000	3,769,000
Sundry	296,000	124,000
Loss on disposal of property, plant and equipment	(1,240,000)	(2,152,000)
Interest expense	<u>(8,173,000)</u>	<u>(7,574,000)</u>
Total other income (expense)	<u>(6,241,000)</u>	<u>(5,833,000)</u>
Income (loss) before extraordinary item	(1,142,000)	5,173,000
Extraordinary item (Note 6)	<u>-</u>	<u>(6,957,000)</u>
Net loss	<u><u>\$(1,142,000)</u></u>	<u><u>\$(1,784,000)</u></u>

The notes to the financial statements are an integral part of the financial statements.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
CINCINNATI, OHIO**

STATEMENTS OF CHANGES IN EQUITY
for the years ended December 31, 1992 and 1991

	<u>Contributions in Aid of Construction</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances, January 1, 1991	\$189,403,000	\$142,308,000	\$331,711,000
Net loss	-	(1,784,000)	(1,784,000)
Additions to contributions in aid of construction	4,330,000	-	4,330,000
Amortization of contributions in aid of construction	<u>(6,861,000)</u>	<u>6,861,000</u>	<u>-</u>
Balances, December 31, 1991	186,872,000	147,385,000	334,257,000
Net loss	-	(1,142,000)	(1,142,000)
Additions to contributions in aid of construction	3,943,000	-	3,943,000
Amortization of contributions in aid of construction	<u>(6,960,000)</u>	<u>6,960,000</u>	<u>-</u>
Balances, December 31, 1992	<u>\$183,855,000</u>	<u>\$153,203,000</u>	<u>\$337,058,000</u>

The notes to the financial statements are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

for the years ended December 31, 1992 and 1991

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Cash received from customers	\$ 80,064,000	\$ 75,345,000
Cash payments to suppliers for goods and services	(24,731,000)	(23,903,000)
Cash payments for personnel costs	(30,610,000)	(30,070,000)
Other operating revenues	<u>3,421,000</u>	<u>3,116,000</u>
Net cash provided by operating activities	<u>28,144,000</u>	<u>24,488,000</u>
Cash flows from capital and related financing activities:		
Sale of revenue bonds	-	89,375,000
Defeasance of revenue bonds	-	(51,096,000)
Principal and interest payments - long-term debt	(18,609,000)	(18,961,000)
Acquisition and construction of capital assets	(36,977,000)	(36,408,000)
Grants and contributions	3,943,000	3,784,000
Proceeds from sale of equipment	<u>49,000</u>	<u>533,000</u>
Net cash used for capital and related financing activities	<u>(51,594,000)</u>	<u>(12,773,000)</u>
Cash flows from investing activities:		
Proceeds from sale (purchase) of government securities	10,086,000	(18,635,000)
Interest on investments	<u>4,899,000</u>	<u>6,532,000</u>
Net cash provided (used) from investing activities	<u>14,985,000</u>	<u>(12,103,000)</u>
Net decrease in cash and cash equivalents	<u>(8,465,000)</u>	<u>(388,000)</u>
Cash and cash equivalents at January 1	<u>60,385,000</u>	<u>60,773,000</u>
Cash and cash equivalents at December 31	<u>\$ 51,920,000</u>	<u>\$ 60,385,000</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	<u>\$ 5,099,000</u>	<u>\$ 11,006,000</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	18,110,000	15,654,000
Allowance for doubtful accounts	-	155,000
Other	-	(37,000)
Change in assets and liabilities:		
Decrease (increase) in receivables	3,758,000	(1,558,000)
Decrease in inventory	147,000	201,000
Increase in accrued compensation	361,000	207,000
Increase (decrease) in operating accounts payable	671,000	(1,137,000)
Increase in prepaid expenses	<u>(2,000)</u>	<u>(3,000)</u>
Total adjustments	<u>23,045,000</u>	<u>13,482,000</u>
Net cash provided by operating activities	<u>\$ 28,144,000</u>	<u>\$ 24,488,000</u>

The notes to the financial statements are an integral part of the financial statements.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
CINCINNATI, OHIO**

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

1. Summary of Significant Accounting Policies

A. Organization

The Metropolitan Sewer District of Greater Cincinnati (MSD) was established pursuant to an agreement dated May 1, 1968, between the Board of Commissioners of Hamilton County and the City of Cincinnati. Under a contract with the City of Cincinnati, the Board designated the City as its agent for the maintenance and operation of MSD. The annual budget, prepared on the cash basis of accounting, is approved by the Board and administered by the City. Budgetary control is exercised at the activity level.

B. Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

C. Investments

Investments are recorded at the lower of cost or market as of the balance sheet date, on an aggregate basis.

D. Inventory

Supplies, materials, and fuel are stated at the lower of cost or market on a first-in, first-out (FIFO) basis.

E. Property, Plant and Equipment

Property, plant and equipment are stated at historical cost for assets acquired after MSD's inception in 1968. Assets acquired prior to 1968 and not identifiable with specific historical costs are not included in the property, plant and equipment balance. Assets acquired by MSD through contributions, such as contributions from land developers and Federal and state grants, are capitalized and recorded in the plant records at the contributors' reported

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
CINCINNATI, OHIO**

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

cost. Construction costs include interest capitalized on debt during the period of construction and the cost of in-force labor.

Depreciation expense is computed on the straight-line method over the estimated useful lives of the respective assets. The estimated lives are as follows:

Buildings and structures	40 years
Processing systems	25 years
Office and service equipment	5 to 15 years

Depreciation expense on fixed assets acquired through contributions is reported as an offset against contributions in aid of construction in fund equity. Any gain or loss arising from the disposal of fixed assets has been credited or charged to income.

F. Unamortized Financing Costs

The unamortized financing costs include bond discount and consulting and attorney fees incurred in connection with the revenue bond obligations. These amounts are being amortized on the interest method over the lives of the revenue bonds.

G. Statement of Cash Flows

For purposes of the Statement of Cash Flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

H. Pension Plans

Pension costs reflect a percentage of employees' gross pay, as defined by the terms of MSD's pension plans. MSD's policy is to fund pension costs accrued.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
CINCINNATI, OHIO**

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

I. Insurance

MSD participates in Ohio Workers' Compensation and Ohio State Unemployment programs.

2. Cash and Investments

Monies held by MSD, other than bond funds held by trustees, are invested on MSD's behalf by the City of Cincinnati (the City). Pursuant to the Cincinnati Municipal Code, allowable investments specifically include: (a) bonds and other obligations of the City; (b) bonds, notes or other obligations on securities of or guaranteed by the United States or any Federal government agency; (c) bonds and other obligations of the State of Ohio; (d) Bonds of any municipality of the State of Ohio; (e) certificates of deposit of banks in accordance with Section 135.18 of the Ohio Revised Code; and (f) repurchase agreements with banks of the City in accordance with Section 135.14 of the Ohio Revised Code.

Cash and investments consist of the following at December 31, 1992 and 1991:

	<u>December 31, 1992</u>		<u>December 31, 1991</u>	
	Cash and Cash <u>Equivalents</u>	<u>Investments</u>	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
Deposits:				
Amounts held by City of Cincinnati	\$32,437,000	\$ -	\$37,143,000	\$ -
Investments held by Trustees:				
U.S. Government securities	-	22,309,000	-	32,395,000
Trust funds liquid asset treasury portfolio	<u>19,483,000</u>	<u>-</u>	<u>23,242,000</u>	<u>-</u>
Total cash and investments	<u>\$51,920,000</u>	<u>\$22,309,000</u>	<u>\$60,385,000</u>	<u>\$32,395,000</u>

The amounts held by the City are collateralized as part of the City's cash and investment balances. Bank balances of the City are covered by Federal depository

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

insurance or collateral held by the Cincinnati Branch of the Federal Reserve Bank of Cleveland or the City's agent in the City's name.

Investments held by trustees are uninsured and unregistered and are held by the financial institution's trust department in MSD's name.

3. Accounts Receivable

Accounts receivable as of December 31, 1992 and 1991, consisted of the following:

	<u>December 31, 1992</u>	<u>December 31, 1991</u>
Sewerage charges and surcharges-unbilled	\$ 6,549,000	\$ 9,749,000
Sewerage charges and surcharges-billed	6,884,000	7,171,000
Other	305,000	574,000
Less allowable for doubtful accounts	<u>(1,130,000)</u>	<u>(1,130,000)</u>
Total	<u>\$12,608,000</u>	<u>\$16,364,000</u>

The method of calculating the December 31, 1992 sewerage and surcharges-unbilled was changed to reflect a more accurate estimate. This change had the effect of reducing the December 31, 1992, accounts receivable amount for sewerage charges and surcharges-unbilled by \$3,087,000 from the amount which would have been recognized had prior year estimating calculations been used. The reduction to the year end receivable reduced 1992 operating revenues from \$82,816,000 to \$79,729,000 and reduced net income from \$1,945,000 to a net loss of \$1,142,000.

4. Restrictions on Assets

Land acquired for MSD's use is titled to either the City of Cincinnati or Hamilton County. The cost of this land has been recorded on the books of MSD since it has the full benefits of the land as an economical resource.

In August 1985, the Federal District Court entered a consent order in an action with MSD and others (see Note 10). In complying with the consent order, MSD is required to maintain amounts on deposit in an environmental security account. Expenditures from this account must be approved by the U.S. Environmental Protection Agency. The balance of this account, which is included in other assets, was \$773,000 and \$743,000 at December 31, 1992 and 1991, respectively.

The Trust Agreement for the 1991, 1986, and 1985 Revenue Bonds (see Note 5) requires the establishment of certain trust accounts including a Bond Account, Bond

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI CINCINNATI, OHIO

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

Reserve Account, Replacement and Improvement Account, and a Surplus Account to be held by the Trustee. The Bond Account will be used to accumulate periodic principal and interest payments. The Bond Reserve Account will be funded in an amount equal to the highest annual future debt service requirement. The Replacement and Improvement Account will be maintained with a balance of \$5,000,000. The Surplus Account is available to be used for any other Sewer System purpose. The Trust Agreement also requires the creation of a Construction Account to be held by the City to pay for project costs.

5. Long-Term Debt

As of December 31, 1992 and 1991, long-term debt consisted of the following:

(In Thousands)

	Principal Issue	Interest Rate	Maturity Date	1992 Principal Outstanding	1991 Principal Outstanding
Ohio Water Authority Contracts	\$41,830	2.00-7.49	2019	\$ 12,406	\$ 14,104
Series A Revenue Bonds					
1985	63,800	6.00-9.50	2005	7,570	9,730
1986	85,020	4.90-7.50	2011	81,180	81,915
1991	90,950	4.80-6.70	2013	89,340	90,270
Loveland Sewer District	200	5.75	2000	75	80
Ohio Water and Sewer Rotary Commission				<u>1,638</u>	<u>1,662</u>
				192,209	197,761
Less current maturities				<u>7,187</u>	<u>5,363</u>
Long-term debt				<u>\$185,022</u>	<u>\$192,398</u>

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI CINCINNATI, OHIO

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

Principal payments on long-term debt for the subsequent five years and thereafter are as follows:

1993	\$ 7,187,000
1994	5,699,000
1995	5,996,000
1996	6,320,000
1997	6,486,000
Thereafter	<u>160,521,000</u>
	<u>\$192,209,000</u>

Effective February 26, 1991, MSD issued \$90,950,000 County of Hamilton, Ohio, 1991 Series A Sewer System Improvement and Refunding Revenue Bonds dated January 15, 1991. The proceeds from the 1991 Bonds were used to permanently fund certain previous capital expenditures, provide funds for new projects, defease a portion of the 1985 Series A bond issue (See Note 6), fund the new bond reserve requirement, and pay the cost of issuance. The 1991 bonds are special obligations of the District payable solely from the net revenues of the District and are issued on a parity with the 1985 and 1986 Series A bonds, secured equally and ratably under the Trust Agreement.

Effective May 29, 1986, MSD issued \$85,020,000 County of Hamilton, Ohio Sewer System Revenue Bonds, 1986 Series A (1986 Bonds). The proceeds from the 1986 Bonds were used to fund certain construction projects, establish various trust funds required by the Bond Indenture, and to pay certain fees and expenses incurred with the issuance of the bonds.

The 1985 and 1986 bonds are secured by a Trust Agreement dated October 1, 1985, as supplemented by a First Supplemental Trust Agreement dated April 1, 1986, between the Trustee, the County, and for certain limited purposes, the City of Cincinnati. The 1985 and the 1986 bonds are on a parity and are equally and ratably secured by a pledge of the Net Revenues (as defined by the debt agreements) of MSD. The 1985 Bonds mature at amounts ranging from \$2,330,000 in 1993 to \$2,725,000 in 1995 (after refunding by the 1991 Series A bonds). The 1986 Bonds mature at amounts ranging from \$775,000 in 1993 to \$13,000,000 in 2011. The 1991 Bonds mature at amounts ranging from \$985,000 in 1993 to \$15,335,000 in 2013. The 1991, 1986, and 1985 Bonds may be redeemed prior to their maturities in accordance

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
CINCINNATI, OHIO**

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

Principal payments on long-term debt for the subsequent five years and thereafter are as follows:

1993	\$ 7,187,000
1994	5,699,000
1995	5,996,000
1996	6,320,000
1997	6,486,000
Thereafter	<u>160,521,000</u>

\$192,209,000

Effective February 26, 1991, MSD issued \$90,950,000 County of Hamilton, Ohio, 1991 Series A Sewer System Improvement and Refunding Revenue Bonds dated January 15, 1991. The proceeds from the 1991 Bonds were used to permanently fund certain previous capital expenditures, provide funds for new projects, defease a portion of the 1985 Series A bond issue (See Note 6), fund the new bond reserve requirement, and pay the cost of issuance. The 1991 bonds are special obligations of the District payable solely from the net revenues of the District and are issued on a parity with the 1985 and 1986 Series A bonds, secured equally and ratably under the Trust Agreement.

Effective May 29, 1986, MSD issued \$85,020,000 County of Hamilton, Ohio Sewer System Revenue Bonds, 1986 Series A (1986 Bonds). The proceeds from the 1986 Bonds were used to fund certain construction projects, establish various trust funds required by the Bond Indenture, and to pay certain fees and expenses incurred with the issuance of the bonds.

The 1985 and 1986 bonds are secured by a Trust Agreement dated October 1, 1985, as supplemented by a First Supplemental Trust Agreement dated April 1, 1986, between the Trustee, the County, and for certain limited purposes, the City of Cincinnati. The 1985 and the 1986 bonds are on a parity and are equally and ratably secured by a pledge of the Net Revenues (as defined by the debt agreements) of MSD. The 1985 Bonds mature at amounts ranging from \$2,330,000 in 1993 to \$2,725,000 in 1995 (after refunding by the 1991 Series A bonds). The 1986 Bonds mature at amounts ranging from \$775,000 in 1993 to \$13,000,000 in 2011. The 1991 Bonds mature at amounts ranging from \$985,000 in 1993 to \$15,335,000 in 2013. The 1991, 1986, and 1985 Bonds may be redeemed prior to their maturities in accordance

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

with provisions of the bond resolutions. The redemption prices for the bonds include declining premiums from 2 percent and 3 percent of principal, respectively.

Under the terms of the amended revenue bond trust indenture, MSD has agreed to certain covenants, among other things, to restrict additional borrowing, fix and maintain rates sufficient to meet debt service requirements, and maintain specified fund balances under trust agreements.

All contracts between the Ohio Water Development Authority (OWDA) and the Metropolitan Sewer District require MSD to prescribe and charge such rates for sewer usage which are sufficient (after expenses of operation and maintenance) to pay principal and interest on OWDA contracts. The principal is repayable in equal semi-annual installments to maturity.

Advances from Ohio Water and Sewer Rotary Commission represent tap-in fees and acreage assessments to be forwarded to the Commission upon collection from customers. Such advances do not bear interest unless they are determined to be in default.

For the years 1992 and 1991, interest costs incurred totaled \$13,214,000 and \$13,393,000, respectively, of which \$5,041,000 and \$5,819,000 were capitalized as part of the cost of MSD's additions to property, plant, and equipment.

The Revenue Serial bond issues as discussed above contain covenants which require the District to maintain a level of debt service coverage. The following calculation reflects the District's debt service coverage.

	<u>1992</u>	<u>1991</u>
Revenues:		
Total operating revenues (See Note 3)	\$79,729,000	\$80,063,000
Interest income	2,876,000	3,769,000
Capitalized interest income	<u>2,023,000</u>	<u>2,895,000</u>
Total pledged revenues	84,628,000	86,727,000
Total operating and maintenance expenses less depreciation and amortization	<u>56,520,000</u>	<u>53,403,000</u>
Net income available for debt service	<u>\$28,108,000</u> (a)	<u>\$33,324,000</u> (a)
Principal and interest requirements on revenue bonds	<u>\$16,358,000</u> (b)	<u>\$15,826,000</u> (b)
Principal and interest requirements on all obligations	<u>\$18,555,000</u> (c)	<u>\$18,201,000</u> (c)
Debt service coverage:		
Revenue bonds (a)÷(b)	<u>1.72</u>	<u>2.11</u>
All obligations (a)÷(c)	<u>1.51</u>	<u>1.83</u>
Basic coverage required on bonds	<u>1.25</u>	<u>1.25</u>

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI CINCINNATI, OHIO

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

6. Extraordinary Item - Defeased Debt

Defeasements During 1991. On February 26, 1991, the District issued \$90,950,000 1991 Series A Sewer System Improvement and Refunding Revenue bonds dated January 15, 1991, with an average interest rate of 6.54 percent. A portion of the proceeds from the bond issue was used to purchase U.S. Government Securities to advance refund \$45,230,000 of outstanding 1985 Series A bonds with an average interest rate of 9.39 percent. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1985 Series A Bonds maturing after December 1, 1995. As a result, the 1985 Series A Bonds maturing after December 31, 1995, are considered to be defeased and the liability for those bonds has been removed from the balance sheet. At December 31, 1992 and 1991, the amount of defeased debt outstanding amounted to \$45,230,000.

Although the advance refunding resulted in the recognition of an accounting loss of \$6,957,000 for the year ended December 31, 1991, which is reflected on the Statement of Revenues and Expenses as an extraordinary item, the District in effect reduced its aggregate debt service payments by \$11.7 million and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$3.3 million.

Other Defeasements. In prior years, MSD defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 1992, and 1991 the amount of prior year's defeased debt outstanding amounted to \$12,060,000 and \$15,053,000, respectively.

7. Contributions in Aid of Construction

Contributions have been received from the OWDA and the United States Government in accordance with agreements transacted between MSD and these two entities. The City of Cincinnati and Hamilton County provided working capital to MSD upon formation, and those capital contributions are included in the amounts

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
CINCINNATI, OHIO**

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 1992 and 1991

below. Other contributions have been received in connection with the expansion of sewerage services.

As of December 31, 1992 and 1991, net contributions in aid of construction consisted of the following:

	<u>1992</u>	<u>1991</u>
United States Government Grants	\$ 129,722,000	\$ 129,328,000
City of Cincinnati	68,300,000	68,300,000
Ohio Water Development		
Authority Grants	43,585,000	43,585,000
Customers	52,224,000	48,674,000
Hamilton County	<u>1,738,000</u>	<u>1,738,000</u>
	295,569,000	291,625,000
Less accumulated amortization of contributions in aid of construction	<u>(111,714,000)</u>	<u>(104,753,000)</u>
	<u>\$ 183,855,000</u>	<u>\$ 186,872,000</u>

8. Pension and Retirement

All MSD full-time employees participate in either the Retirement System of the City of Cincinnati (City System) or the Public Employees' Retirement System administered by the State of Ohio (State PERS). Each plan is a cost-sharing, multiple-employer, public employee retirement system. The payroll for employees covered by the plans for the year ended December 31, 1992, was \$23,678,000 and \$867,000 for the City System and State PERS, respectively. MSD's total payroll was \$24,578,000. The payroll for employees covered by the plans for the year ended December 31, 1991, was \$22,612,000 and \$848,000 for the City System and State PERS, respectively. MSD's total payroll for 1991 was \$23,574,000.

Income sources for each of the pension systems include both employee and employer contributions as well as income earned on investments. Employer contributions to the pension funds are current and fully met as required by law. Annual contributions

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to all pension systems include a provision for past service costs to properly fund pension and other benefits payable on account for creditable service.

The following table lists the employer and employee contribution rates and amounts paid by MSD for each retirement system for the year ended December 31, 1992

	(In Thousands)			
	<u>Employer</u>		<u>Employee</u>	
	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>
City of Cincinnati Retirement System	16.75%	\$3,959*	7.0%	\$1,657
Public Employees Retirement System	13.55%	118**	8.5%	74

* Employer amount includes health care costs which were included in the calculation of the pension benefit obligation.

** A portion of the PERS employer amount is used to fund a health care program which is not part of pension benefit obligation calculations.

The "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits estimated to be payable in the future as a result of the employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess each system's funding status on a going-concern basis, progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among and assess retirement systems and employers. The measure is independent of the actuarial funding method used to determine contributions to the retirement system. The systems do not make separate measurements of assets and pension benefit obligation for individual employers.

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Listed below, for each system, is the pension benefit obligation for each system as a whole, net assets available for benefits, and the unfunded pension benefit obligation. These were determined through actuarial evaluations performed as of December 31, 1992, for the City System and December 31, 1991, for the PERS, (latest information available).

	(In Thousands)		
	<u>Pension Benefit Obligation (PBO)</u>	<u>Net Assets Available</u>	<u>Unfunded PBO</u>
City of Cincinnati Retirement System	\$ 1,109,333	\$ 1,037,351	\$ 71,982
Public Employees Retirement System	\$19,801,100	\$18,501,200	\$1,299,900

City of Cincinnati Retirement System. The service retirement allowance vests after five years of creditable service. Medical care benefits vest after fifteen years of creditable service or after reaching age sixty with five years of creditable service. Any member in service may retire upon attaining age sixty, regardless of length of membership service if he was enrolled prior to January 1, 1969, or with at least five years of membership service if enrollment occurred at January 1, 1969, or later, or upon completing five years of creditable service before age sixty members may retire with a retirement allowance commencing at age sixty, provided, however, at the time of election of the deferred annuity, there is no loan outstanding against his contributions.

The annual retirement allowance consists of an annuity provided by the number equal in value to contributions with interest at the time of retirement and a pension, which together with annuity, produces a total annual retirement allowance equal to 2 percent of the average highest compensation multiplied by the number of years of membership service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by the Cincinnati Municipal Code.

Each member contributes at a rate of 7 percent of his salary until his retirement. MSD makes annual contributions based on a percentage of the salaries of all

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members which is determined actuarially at each year end for the next year. The contribution rate for 1992 was 16.75 percent consisting of 6.61 percent for the normal contribution and 10.14 percent for the accrued liability contribution.

The City System has 6,320 active contributing participants of which 734 are MSD employees. For 1992 MSD's contribution was 13.8 percent of the total employer contribution.

The following significant actuarial assumptions used to compute the pension benefit obligation are the same as those used to compute actuarially determined contribution requirements.

1. Investment Return: 8.25 percent per annum, compounded annually.
2. Mortality:
 - a. Non-disabled - 1971 Group Annuity Mortality Table.
 - b. Disabled - 1960 City of Cincinnati Experience Table.
3. Salary Scale: 5.5 percent per annum plus provision for an additional 9 percent increase in final average salary due to final lump sum salary payment.
4. Rate of Termination: 1979 City of Cincinnati Experience Table.
5. Rate of Disability: 1979 City of Cincinnati Experience Table.
6. Asset Valuation: Book Value.
7. Assumed Retirement Age: 62.
8. Medical Benefits: Current premium costs with projected increases of 7 percent per annum.

The "entry age normal with frozen initial liability" is the funding method used by the actuary in computing the employer contribution rate and established actuarial liability

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of the system. The unfunded actuarial liability at December 31, 1992, was \$96,865,000. The period of financing this unfunded liability is six years.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year trend information is available and the Analysis of Funding Progress is available for years 1987 through 1992 only.

Other Postemployment Benefit Information. The City System provides hospital and Surgical Insurance to retired members who have earned fifteen years credited service at the time of termination or terminate after age sixty with five years credited service and those who are receiving survivor benefits of eligible members are entitled to have their Hospital and Surgical Insurance premiums paid by the System. When benefits under the coverage would be reduced by reason of the retired member's eligibility for hospital and medical benefits under federal social security laws, the System will pay whatever additional fees are required for the federal medical coverage.

The health care coverage provided by the City System is considered an Other Postemployment Benefit (OPEB). It is advanced funded on an actuarially determined basis as a portion of the employer contribution requirement to the System. The Cincinnati Municipal Code provides authority for employer contributions. Health care coverage has been included in the calculation of the pension benefit obligation. Assets and liabilities are not separately determined.

Public Employees' Retirement System. MSD has 24 employees, as of December 31, 1992, who are participants of the Public Employees' Retirement System administered by the State of Ohio. This plan is not a significant portion of the overall operations of MSD. Additional disclosures concerning this plan, including other postemployment benefit information, can be found in the plan's annual financial statements.

9. Related Party Transactions

Cincinnati Water Works provides billing and collection services on customers' accounts for MSD. Fees for these services for 1992 and 1991 were \$3,157,000 and \$2,969,000, respectively. Fees are also paid to other municipalities and villages within Hamilton County for collection of sewerage bills.

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The City of Cincinnati provides "overhead" services to MSD, such as check disbursement, investment and legal services, etc. The fees for these services for 1992 and 1991 were \$1,837,000 and \$1,632,000, respectively. In addition, the City's Municipal Garage provides gasoline and repairs vehicles for MSD. Fees for these services were \$803,000 and \$852,000 for 1992 and 1991, respectively.

10. Commitments and Contingencies

The City of Cincinnati and the Board of County Commissioners of Hamilton County, Ohio, are parties to a Federal Consent Order which was entered in settlement of United States of America vs. The Board of County Commissioners of Hamilton County, Ohio, et al., Case No. C-1-85-0693. The City and County have continued in their efforts to negotiate an amendment to change certain construction schedules appearing in exhibits to that order. The City and County believe these changes are due to circumstances beyond the control of either, and are seeking approval of those schedule modifications from the United States Environmental Protection Agency. The consent order provides for stipulated penalties for failure to meet certain construction schedule deadlines but specifically contemplates that no such penalties will be collected from either defendant where the non-compliance was beyond the reasonable control of the defendants. In addition, according to MSD's Chief Legal Counsel, EPA has requested the payment of \$290,000 in stipulated penalties under the Consent Order for certain effluent limit excursions. The Consent order provides for stipulated penalties under certain conditions, and although the City and County have argued that no substantial penalties are appropriate, it appears that EPA does intend to extract some monetary payment for the excursions. Currently, the City is awaiting EPA's response to certain defenses presented during 1992.

The City of Cincinnati and the Board of County Commissioners executed a Consent Decree with the State of Ohio on March 16, 1992, in the context of Hamilton County Common Pleas, Case No. A-9202450. This case alleged that the City and Board failed to demonstrate adequate implementation of the approved pretreatment program. The Consent Decree required the City and Board to (A) immediately implement its enforcement response plan for all instances of industrial user non-compliance; (B) to issue effective and enforceable compliance orders and schedules for all industrial users in significant non-compliance during 1991; and (C) pay \$170,000 in satisfaction of all claims for civil penalties. The \$170,000 payment has

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been made. The City Manager appointed a pre-treatment enforcement team consisting of pretreatment specialists and attorneys with the express goal of improving the pretreatment enforcement program and satisfying all concerns of Ohio EPA. Management believes that MSD's Pretreatment Program is now operating in full conformity with state and federal law and no further enforcement action by the State against the City or Board is anticipated.

11. Subsequent Events

Bond Issue. On April 21, 1993, the District issued \$171,790,000, 1993 Series A Sewer System Improvement and Refunding Revenue Bonds dated April 15, 1993. The proceeds from the sale of such bonds, together with certain other available funds of the District are to be used to 1) reimburse the District for the cost of purchasing certain equipment, constructing certain improvements and making certain other capital expenditures for which the District has already expended the funds, 2) provide funds for new capital improvement projects, 3) advance refund the 1986 Bonds maturing December 1, 2006, 2010, and 2011 in the principal amount of \$71,960,000, and the 1991 Bonds maturing December 1, 2013 in the principal amount of \$31,915,000, 4) fund a portion of the Bond Reserve Requirement and 5) pay a portion of the costs of issuance of the 1993 bonds.

The 1993 bonds are special obligations of the District, payable solely from the net revenues of the District and are issued as parity with the 1985 bonds, the 1986 bonds, and the 1991 bonds, secured equally and ratably under the trust agreement. The 1993 bonds are dated April 15, 1993 and bear interest ranging from 2.45 percent to 5.60 percent and mature at varying amounts through the year 2016.

Rate Increase. The Hamilton County Board of Commissioners approved a sewer service charge rate increase effective April 14, 1993 of 20 percent.

THE METROPOLITAN SEWER DISTRICT
OF GREATER CINCINNATI

HAMILTON

COUNTY

CLERK'S CERTIFICATION

This a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

By:


Clerk of the Bureau

Date: AUG 09 1993

